LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7482 | **DATE PREPARED:** Apr 29, 2001
BILL NUMBER: SB 199 | **BILL AMENDED:** Apr 29, 2001

SUBJECT: Retirement and Severance.

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FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: (CCR Amended) *Retirement and Severance*- This bill provides that if a school corporation establishes after June 30, 2001, a retirement or severance plan or enters into any contract provisions that: (1) will increase the benefit or the unfunded liability under any retirement of severance provisions that will require the school corporation to pay post-retirement or severance benefits to employees of the school corporation, the school corporation must actuarially fund the post-retirement or severance benefits.

It authorizes school corporations to issue bonds to implement solutions to contractual retirement or severance liability as it existed on June 30, 1998. It provides that those school corporations may issue bonds for this purpose only one time and that the bonds must be issued before December 31, 2003. It requires a reduction in property tax levies for the school's capital projects fund, transportation fund, or art association and historical society funds to offset the debt service levy needed.

Effective Date: (CCR Amended) July 1, 2001; December 31, 2003.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Retirement and Severance*- Schools would be required to actuarially fund any new or increased retirement or severance benefits. The impact would depend on the number of new or increased retirement or severance benefits granted by schools in the future.

Funding for the bill would be from existing revenue sources.

Background : About 289 of the 294 school corporations have some severance and or early retirement benefits provision as part of the school's contract. Approximately 50 are currently funded on an actuarial basis. Certified staff salaries for the 1999-2000 school year were about $3.0 B. Each 1% of payroll required to fund the benefits would cost schools about $30 M. The actual cost would depend on the benefits granted by the school corporation.

The maximum severance benefits range between $4,200 and $103,075 with the average being $18,338 per teacher.

The maximum early retirement benefits range between $15,000 and $205,724 with the average being $69,855 per teacher.

During CY 2000 local schools had general fund expenditures of $163 M, a 14.7% increase from CY 1999, on severance and early retirement benefits. The present value of the benefits over the next 10 years is about $1.5B.

Explanation of Local Revenues: (Revised).*Severance and Retirement Benefit* - The bill would allow schools to fund severance and retirement benefits by issuing a bond to cover the future cost of the benefits. The bond could be financed by reductions in the corporation's transportation, capital project, art association, and historical society funds. The approximate bond payments of a $1.5 B bond for severance and early retirement benefits over 20 years at 6% interest would be about $130 M. The total amount of the bonds cannot exceed 2% of the total assessed valuation of property in the school. The impacts would be offset by reductions in the corporation's transportation, capital project, art association, and historical society funds.

State Agencies Affected:

Local Agencies Affected: Local School Corporations.

Information Sources: School Boards Association.